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BEFORE THE ARIZONA CORPORATION COMMISSION

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AZ CORP COMMISSION  
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IN THE MATTER OF THE APPLICATION OF  
ARIZONA-AMERICAN WATER COMPANY,  
AN ARIZONA CORPORATION, FOR A  
DETERMINATION OF THE CURRENT FAIR  
VALUE OF ITS UTILITY PLANT AND  
PROPERTY AND FOR INCREASES IN ITS  
RATES AND CHARGES BASED THEREON  
FOR UTILITY SERVICE BY ITS SUN CITY  
WASTEWATER AND SUN CITY WEST  
WASTEWATER DISTRICTS.

Docket No. WS-01303A-06-0491

Arizona Corporation Commission  
**DOCKETED**

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**NOTICE OF FILING**

The Residential Utility Consumer Office ("RUCO") hereby provides notice of filing the Testimony Summaries of William A. Rigsby, CRRA and Timothy J. Coley in the above-referenced matter.

RESPECTFULLY SUBMITTED this 21<sup>st</sup> day of August 2007

Daniel W. Pozefsky  
Attorney

1 AN ORIGINAL AND THIRTEEN COPIES  
2 of the foregoing filed this 21<sup>st</sup> day  
3 of August 2007 with:

3 Docket Control  
4 Arizona Corporation Commission  
5 1200 West Washington  
6 Phoenix, Arizona 85007

7 COPIES of the foregoing hand delivered/  
8 mailed this 21<sup>st</sup> day of August 2007 to:

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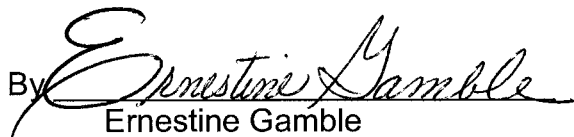
Adam Stafford  
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John LeSueur  
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1 By   
2 Ernestine Gamble  
3 Secretary to Daniel W. Pozefsky  
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**Arizona-American Water Company  
Sun City and Sun City West Wastewater Districts  
Docket No. WS-01303A-06-0491  
Rate Case**

**SUMMARY OF THE TESTIMONY OF WILLIAM A. RIGSBY, CRRA  
ON BEHALF OF THE RESIDENTIAL UTILITY CONSUMER OFFICE**

The following is a summary of the significant issues set forth in both the direct and the surrebuttal testimony of RUCO witness William A. Rigsby, CRRA, on Arizona-American Water Company's ("Arizona-American" or "Company") application for a permanent rate increase for the Company's Sun City and Sun City West Wastewater Districts, located in Maricopa County. A full discussion of the cost of capital issues associated with Arizona-American's request for revenue relief and the underlying theory and rationales for Mr. Rigsby's recommendations are contained in the above referenced documents. The significant issues associated with the case are as follows:

Weighted Cost of Capital – Mr. Rigsby is recommending a 7.23 percent weighted cost of capital. Mr. Rigsby's 7.23 percent figure is the result of his recommended hypothetical capital structure, his recommended cost of debt, and his recommended cost of equity.

Capital Structure – Mr. Rigsby is recommending that the Commission adopt a hypothetical capital structure comprised of 60 percent debt and 40 percent common equity.

## **SUMMARY OF THE TESTIMONY OF WILLIAM A. RIGSBY, CRRA (Cont.)**

Cost of Debt – Mr. Rigsby is recommending a 5.37 percent cost of debt which was derived from information contained in the Arizona-American's application and from compliance documents, filed with the Commission on January 8, 2007, which contained copies of executed promissory notes on the Company's most recent debt refinancing.

Cost of Common Equity – Mr. Rigsby is recommending a 10.03 percent cost of common equity. Mr. Rigsby's 10.03 percent figure is based on the results of his cost of equity analysis, which used both the discounted cash flow ("DCF") and capital asset pricing model ("CAPM") methodologies. Mr. Rigsby's 10.03 percent cost of equity figure is a mean average of the results derived from his DCF and CAPM models and contains a 50 basis point upward adjustment that takes into consideration the Company's debt leveraged capital structure.

**Arizona-American Water Company  
Sun City and Sun City West Wastewater Districts  
Docket No. WS-01303A-06-0491  
Rate Application**

**SUMMARY OF THE TESTIMONY OF TIMOTHY J. COLEY  
ON BEHALF OF THE RESIDENTIAL UTILITY CONSUMER OFFICE**

The following is a summary of the direct and surrebuttal testimonies given by Timothy J. Coley applicable to RUCO's recommended conditions for a permanent rate increase. A full disclosure of the issues and conditions are contained in the referenced documents.

The testimonies of Mr. Coley address the following outstanding issues:

**RATE BASE ISSUES**

Gross Utility Plant and Accumulated Depreciation – This adjustment is based on RUCO's recommended level of plant and accumulated depreciation for Sun City and Sun City West Wastewater Districts.

Remove 22 Days of Amortization to Post-Test-Year Regulatory Advances ("AIAC") and Contributions ("CIAC") – This adjustment removes 22 days of amortization to regulatory AIAC's and CIAC's.

Working Capital – This adjustment is necessary to properly reflect the Company's working capital requirement based on a lead/lag study.

Tolleson Rate Component 4 – Post-Test-Year De-Chlorination Upgrade – This adjustment removes post-test-year gross utility plant from service.

Post-Test-Year Amortization of the Tolleson Trickling Filter – This adjustment removes 22 days of post-test-year amortization from rate base.

## SUMMARY OF THE TESTIMONY OF TIMOTHY J. COLEY (Cont.)

### OPERATING INCOME & EXPENSE ISSUES

Direct and Allocated Labor Expenses – This adjustment reduces the test-year labor and payroll expenses to reflect the last known test-year hourly labor rate.

Property Taxes – ADOR Methodology – RUCO made an adjustment to reflect the Company's property tax based on the use of the Arizona Department of Revenue formula.

Rate Case Expenses - This adjustment is based on RUCO's determination of the fair and reasonable costs to Sun City and Sun City West Wastewater Districts' ratepayers for this rate case.

Test-Year Depreciation & Amortization Expense - RUCO made adjustments to depreciation and amortization expense to reflect the recommended level of utility plant in service.

Industrial Pre-Treatment Program ("IPP") Labor Expense – RUCO made an adjustment that removes the Company's pro-forma adjustment that continues the test-year accounting treatment for the IPP labor expense.

Achievement Incentive Pay ("AIP") – RUCO made an adjustment that is consistent and reflective of Commission Decision No. 68858 – Paradise Valley Water District – that shares 30 percent of the AIP expenses with shareholders.

Northwest Valley Treatment Facility ("NWVTF") – RUCO made an adjustment that allows for a return to be earned on the 2.25 percent of rate base that was inappropriately allocated to Anthem Wastewater District.

## **SUMMARY OF THE TESTIMONY OF TIMOTHY J. COLEY (Cont.)**

Income Tax Expense - This adjustment reflects income tax expenses calculated on RUCO's recommended revenues and expenses.

### **RATE DESIGN**

RUCO recommends the Company's current rate structure that is comprised of a flat rate design for the residential customers with a volumetric rate design for the commercial customers.

### **OTHER ISSUES**

This summary does not address testimonies of Mr. Coley concerning issues that the Company and RUCO discussed and reached an agreement on.

These resolved issues are: 1) the removal of post-test-year imputed regulatory AIAC's and CIAC's; 2) the removal of Y2K costs from rate base; 3) allocation of standby pay; 4) revenue annualization; 5) miscellaneous expense; 6) waste disposal expense; and 7) late payments on power bills.